

Swine and Poultry Situation and Outlook

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1998 was a year of extremes: extreme losses for pig producers and extreme profits for broiler processors. Turkey producers experienced positive margins for the first time in three years. Feed prices fell from the higher levels of 1997. Broiler production is expanding. Production of pork and turkeys is declining. Prices and profit margins for broiler processors rose sharply. Hog prices fell to Great Depression era levels despite steady retail prices. Lack of hog packing capacity became a national issue in the 4th quarter of 1998. Continued export growth is expected for pork and poultry in 1998. Regional issues include the lack of hog packing capacity in the South and the effects of state and federal environmental regulations and legislation on swine and poultry producers.

Broilers: Domestic production of broilers has increased at annual rates of 3.6 percent in 1997, only 1.9 percent in 1998 and is predicted to rise by 5 percent in 1999 (USDA, 12/29/98). Broiler meat exports have increased steadily in recent years from 3.9 billion pounds in 1995 to 4.5 billion pounds in 1998. Export growth slowed in 1998 and USDA predicts a decline to 4.3 billion pounds in 1999. Through October of 1998, exports were sharply decreased to Russia, and slightly decreased to some Asian countries. Hong Kong has replaced Russia as the leading market for U.S. broiler exports in recent months. Domestic per capita consumption of broiler meat has also risen steadily from 68.8 pounds (retail) per capita in 1995 to 74.2 pounds in 1998 and a predicted 78.4 pounds in 1999. A remarkable feature of this growth is that broiler producers have maintained positive margins each year. The relatively small increase in production, per capita consumption, and exports in 1998 was accompanied by a 6.8% increase in wholesale prices. The combined effect of higher prices and an 8% decline in costs was a tremendous 14 cents per pound RTC margin for broiler processors. With the predicted 5 percent increase in domestic per capita consumption in 1999, USDA predicts a 7 percent decline in wholesale broiler prices. Unchanged feed costs result in predicted processor margins of 9 cents per pound RTC. Risk factors include feed cost shocks and economic recession in domestic and export markets. Broiler margins are relatively more sensitive to protein (soybean meal) prices than other livestock and poultry. Reduced supplies of beef and pork and predicted large margins for broiler processors may result in greater than expected broiler production and slightly lower prices in 1999.

Turkeys: Total weight of U.S. turkey production fell by 4.4 percent in 1998 and is predicted to be unchanged in 1999 (USDA, 12/29/98). Turkey exports fell from 598 million pounds in 1997 to 428 million pounds in 1998 and to a predicted 430 million pounds in 1999. Through October, 1998, sharp increases in exports to Mexico were not enough to offset sharp declines in exports to Russia and Hong Kong. Mexico was the major export market for U.S. turkey in 1998. U.S. per capita consumption rose to 18 retail pounds in 1998 from 17.6 in 1997. Unchanged production and exports, and population growth in 1999 are predicted to reduce per capita consumption to 17.5 pounds. Lower feed costs and slightly higher prices restored turkey processor margins to a slight positive value in 1998. Slightly lower feed costs and slightly higher prices may maintain positive margins in 1999. A substantial increase in production seems unlikely in view of negative margins in 1996 and 1997 and slim positive margins in 1998. Large margins at the end of 1998 may stimulate increased

production in the second half of 1999.

Table Eggs: Market egg consumption increased by 2 eggs per capita in 1997, 4 eggs per capita in 1998, and is predicted to increase by 2 eggs per capita in 1999. A decline of 5 cents per dozen in egg prices was partially offset by lower feed costs in 1998 to maintain very positive margins for egg producers. Large positive margins through most of 1998 and expected low feed costs support the prediction of increased production and lower prices in 1999. Egg prices may fall more than predicted due to production that may increase more than expected based on very positive margins and a larger laying flock.

Swine: Pork production increased by 1 percent in 1997 following high hog prices and high feed costs in 1996. Positive margins through 1997 contributed to a 9.8% increase in production in 1998. This growth was mostly predicted by the December, 1997 Hogs and Pigs report which listed an inventory 7 percent larger than a year earlier and farrowing intentions at 9 and 3.5 percent above year earlier levels for the first two quarters of 1998. The December 1998 report lists an inventory that is 2 percent larger than last year with 1999 farrowing intentions 1 and 7 percent lower than in 1998 for the first two quarters. Pork exports rose from 771 million pounds in 1995 to 1.04 billion pounds in 1997 and 1.23 billion pounds in 1998. Exports are predicted to rise to 1.35 billion pounds in 1999 (USDA, 12/29/98). Pork imports fell from 664 million pounds in 1995 to 627 million pounds in 1997 and rose to 680 million pounds in 1998. A further rise in imports to 700 million pounds is predicted for 1999. Net export of pork rose by 34 percent (141 million pounds) in 1998 and is predicted to decline slightly in 1999. Major export destinations through October, 1998 include Japan and Mexico. Pork imports came from Canada, Denmark, and other countries in 1998. Domestic consumption fell from 52.4 pounds retail per capita in 1995 to 48.7 pounds in 1997 and rose to 52.7 in 1998. Per capita consumption is predicted at 53.4 pounds per capita in 1999 on increased production. Average annual hog price fell from \$51.36 per cwt. live in 1997 to \$32.24 in 1998. USDA predicted hog prices near \$34 in 1999 (12/29/98). Recent lean hog futures prices suggest live hog prices averaging near \$38 in 1999 as supplies decrease in the second half of the year. Lower feed costs may restore hog producer margins near breakeven levels in 1999. Risk factors include feed cost shocks and economic recession.

The U.S. pork industry along with recent policy developments inadvertently created a disaster for pig producers in 1998 and the first part of 1999 by reducing packing capacity by 8 percent while increasing hog production by 10 percent. The closing of Thorn Apple Valley's Detroit plant (18,000 head per day) and previous closings of plants in South Dakota and Iowa followed low hog supplies in the midwest in 1996 and early in 1997. In October, 1998 U.S. packers reached a slaughter rate of 2 million head per week and set several records for weekly slaughter through the remainder of 1998. Despite retail pork prices that were only 2 percent below 1997, hog prices fell to as low as 9 cents per live pound in December, 1998. Equity losses from U.S. pig farms in 1998 were estimated at \$2.5 billion by Missouri economists. The losses continue to accumulate although hog prices have started to recover. The pig farm disaster is comparable in value to the damage caused by major weather disasters in recent years.

Related Issues: Environmental regulations for poultry and hog farms continue to evolve

across the country. The EPA is developing new guidelines and regulations for all livestock farms.

A severe packing capacity shortage on the east coast continues to hamper swine farms here. North Carolina, Virginia, and South Carolina have enough surplus pigs to supply a 16,000 head per day slaughter plant (4 million per year) based on recent pig crop estimates. NC, VA, and SC had a combined pig crop of 19.9 million head in 1998 while combined slaughter in the three states was about 14.4 million head. Exports of weaned pigs and feeder pigs are alleviating excess supply. Prices for similar market hogs in midwestern markets appear to be 4 to 5 percent higher than in North Carolina.

Rapid recovery of economies of Japan and Korea may result in higher than expected exports. Decreased U.S. meat supplies and higher prices may limit exports.

Feed prices are low at the moment. Booking feed, hedging with futures contracts, or buying call options are methods of limiting feed cost risk in 1999.

In summary, 1999 will be a year of large broiler supplies and declining pork supplies, rising prices, improving profit margins for hog producers, and positive margins for poultry producers. Reduced cattle supplies forecast for late 1999 hold some promise of higher prices.

**Annual Forecasts (Source: USDA, *Livestock, Dairy, and Poultry Monthly*,
LDP-M-45, January 16, 1998.)**

	1995	1996	1997	1998
Economic Indicators /1				
Real GDP, Billions	6,743	6,928	7,166	7,343
CPI-U, Annual % Change	2.7	3.2	2.0	2.6
Unemployment rate,	5.6	5.4	5.0	4.9
3-Month T Bill,%	5.5	5.0	5.1	5.2
10-Year Bond,%	6.6	6.4	6.4	6.2
Production, million lb.				
Beef	25,115	25,419	25,388	24,975
Pork	17,811	17,085	17,254	18,675
Broilers	25,021	26,336	27,287	28,800
Turkeys	5,129	5,466	5,450	5,450
Total Red Meat & Poultry	74,070	75,303	76,330	78,760
Eggs, mil doz.	5,269	5,393	5,441	5,575
Milk	155,425	154,331	156,686	157,100
Commercial use	154,857	15,063	157,090	158,200
Net removals (mf basis)	2,102	86	1,298	700
Per capita consumption, Retail wt.				
Beef	67.5	67.7	66.4	66.7
Pork	52.4	49.1	48.7	52.4
Broilers	68.8	70.8	72.6	76.3
Turkeys	17.9	18.5	17.8	17.7
Total Red Meat & Poultry	210.3	209.1	208.0	215.5
Eggs, number	236	237	239	242
Market Prices				
Choice steers, Neb.\$/cwt	66.24	65.21	64-69	66-71
Feeder steers,Ok City,\$/cwt	68.03	61.08	74-79	79-84
Bng Ut Cows,S. Falls,\$/cwt	35.58	30.33	33-36	40-43
Barrows & gilts,Ia/Mn, \$/cwt	52.35	53.39	50-53	38-41
Broilers, 12 City, cents/lb	56.38	61.24	57-61	54-58
Turkeys, Eastern, cents/lb	66.35	66.50	63-67	60-64
Eggs, New York, cents/doz	72.85	88.18	78-84	74-79
Milk, all at plant \$/cwt	12.74	14.74	13.0-13.8	12.9-13.8
Milk, M-W, \$/cwt.	11.83	13.39	11.7-12.5	11.7-12.6
U.S. Trade, million lb.				
Beef & veal exports	1,821	1,877	2,093	1,985
Beef & veal imports	2,103	2,073	2,328	2,700
Pork exports	787	970	1,040	990
Pork imports	664	618	627	575
Broiler exports	3,894	4,420	4,683	4,750
Turkey exports	348	438	599	610

/1 Macro economic forecasts: Survey of Professional Forecasters, Philadelphia Federal Reserve, November 1997.